

GAO

Testimony

Before the Panel on Defense Financial
Management and Auditability Reform,
Committee on Armed Services, House of
Representatives

For Release on Delivery
Expected at 8:00 a.m. EDT
Thursday, October 27, 2011

DOD FINANCIAL MANAGEMENT

Challenges in the Implementation of Business Systems Could Impact Audit Readiness Efforts

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U.S. Government Accountability Office

GAO90

YEARS

1921-2011

ACCOUNTABILITY ★ INTEGRITY ★ RELIABILITY

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE 27 OCT 2011		2. REPORT TYPE		3. DATES COVERED 00-00-2011 to 00-00-2011	
4. TITLE AND SUBTITLE DOD Financial Management: Challenges in the Implementation of Business Systems Could Impact Audit Readiness Efforts				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) U.S. Government Accountability Office, 441 G Street NW, Washington, DC, 20548				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT Same as Report (SAR)	18. NUMBER OF PAGES 18	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			



Highlights of [GAO-12-177T](#), a testimony before the Panel on Defense Financial Management and Auditability Reform, Committee on Armed Services, House of Representatives

Why GAO Did This Study

As one of the largest and most complex organizations in the world, the Department of Defense (DOD) faces many challenges in resolving its long-standing financial and related business operations and system problems. DOD is in the process of implementing modern multifunction enterprise resource planning (ERP) systems to replace many of its outdated legacy systems. The ERPs are intended to perform business-related tasks such as general ledger accounting and supply chain management. Modernizing DOD's business systems is a critical part of transforming the department's business operations, addressing high-risk areas, and providing more-accurate and reliable financial information to Congress on DOD's operations.

The Panel requested that GAO provide its perspective on DOD's ERP implementation efforts and the impact implementation problems could have on DOD's efforts to improve financial management and be audit ready by fiscal year 2017.

This statement is based on GAO's prior work, reports issued by the Department of Defense Inspector General (DOD IG), and GAO's ongoing oversight of selected DOD ERP efforts. Over the years, GAO has made numerous recommendations to improve the department's financial management operations.

View [GAO-12-177T](#). For more information, contact Asif A. Khan at (202) 512-9869 or khana@gao.gov.

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Challenges in the Implementation of Business Systems Could Impact Audit Readiness Efforts

What GAO Found

DOD has invested billions of dollars and will invest billions more to develop and implement 10 ERPs that it has estimated will replace over 500 legacy systems that reportedly cost hundreds of millions of dollars to operate annually. DOD considers implementation of the ERPs as critical not only for addressing weaknesses in financial management, but also for resolving weaknesses in other high-risk areas such as business systems modernization and supply chain management. The ERPs are also important for DOD's goal of departmentwide audit readiness by fiscal year 2017. Furthermore, in light of the Secretary of Defense's recent decision that the Statement of Budgetary Resources is to be audit ready by fiscal year 2014, it is critical that the department have such systems in place to support its auditability goals.

To date, however, DOD's ERP implementation has been impaired by delays, cost increases, failures in delivering the necessary functionality, and a lack of compliance with required standards. Delays in implementation have extended the use of existing duplicative, stovepiped systems, and the need to fund them. More specifically,

- GAO has reported that, based upon the data provided by DOD, 6 of the 10 ERPs DOD had identified as critical to transforming its business operations experienced schedule delays ranging from 2 to 12 years, and five had incurred cost increases totaling an estimated \$6.9 billion.
- GAO's review of 6 ERPs found that none of the programs had developed a fully integrated master schedule, a best practice and tool in the management of business-system development that is crucial to estimating the overall schedule and cost of a program.
- DOD IG has reported that the Army's Logistics Modernization Program, which is intended to provide financial management capabilities for the Army Working Capital Fund, was not compliant with the U.S. Government Standard General Ledger, which supports the consistent recording of financial information and the preparation of standard reports required by the Office of Management and Budget and the Department of the Treasury.

Further, GAO's preliminary results from an ongoing audit of two ERPs—the Army's General Fund Enterprise Business System and the Air Force's Defense Enterprise Accounting and Management System—found that the systems did not provide Defense Finance and Accounting Service users with the expected capabilities in accounting, management information, and decision support. System problems identified include interface issues between legacy systems and the new ERPs, lack of ad hoc query reporting capabilities, and reduced visibility for tracing transactions to resolve accounting differences. To compensate for these operational deficiencies, users were relying on manual workarounds to perform day-to-day operations. Such performance deficiencies, delays, and other problems in ERP implementation can negatively impact DOD's auditability goals.

Chairman Conaway, Ranking Member Andrews, and Members of the Panel:

It is a pleasure to be here today to discuss the Department of Defense's (DOD) efforts to improve the efficiency and effectiveness of its business systems,¹ in particular its enterprise resource planning (ERP) systems.² The modernization of the department's business systems is an essential part of the DOD's efforts to transform its business operations and achieve audit readiness by fiscal year 2017 as directed by the National Defense Authorization Act for Fiscal Year 2010.³ In the light of the Secretary of Defense's recent decision that the Statement of Budgetary Resources is to be audit ready by fiscal year 2014, it is critical that the department has in place the systems to support its auditability goals. To support its business functions, DOD has reported that it relies on over 2,200 business systems,⁴ including financial management, acquisition, logistics, and personnel systems. For fiscal year 2012, the department requested about \$17.3 billion to operate, maintain, and modernize its business systems.

The implementation of an integrated, audit-ready systems environment through the deployment of ERP systems underlies all of DOD's financial improvement efforts and is crucial to achieving departmentwide audit readiness as well as addressing long-standing weaknesses in financial management and weaknesses in other high-risk areas such as business systems modernization and supply chain management. In October 2010,

¹DOD's business systems are information systems including financial and nonfinancial systems that support DOD business operations, such as civilian personnel, finance, health, logistics, military personnel, procurement, and transportation.

²An ERP solution is an automated system using commercial off-the-shelf (COTS) software consisting of multiple, integrated functional modules that perform a variety of business-related tasks such as general ledger accounting, payroll, and supply chain management.

³Pub. L. No. 111-84, § 1003(a), (b), 123 Stat. 2190, 2439-40 (Oct. 28, 2009).

⁴DOD excludes from its business systems those designated as national security systems under section 2222(j) of Title 10, United States Code. National security systems are information systems where the function, operation, or use of which involves intelligence activities, cryptologic activities related to national security, command and control of military forces, equipment that is an integral part of a weapon or weapon system or is critical to the direct fulfillment of military or intelligence missions (unless used for routine administrative and business applications), or is protected at all times by classification procedures in the interest of national defense or foreign relations, as authorized by law or executive order.

we reported on the status of DOD's ERP implementation efforts.⁵ DOD identified 10 ERPs⁶—2 of which it reported as having been fully deployed—as essential to its efforts to transform its business operations. According to DOD, it has invested billions of dollars to develop and implement these ERPs and will invest additional billions before the remaining ERPs are fully implemented. DOD has stated that the ERPs will replace over 500 legacy systems that reportedly cost hundreds of millions of dollars to operate annually.

My statement today is based primarily on our prior and ongoing work and includes information from reports issued by DOD, its components, and the DOD Inspector General (DOD IG) related to the department's business transformation and financial management improvement activities. We discussed with DOD officials the preliminary findings from the ongoing ERP audit that are included in this testimony and considered their comments in this statement. Our work on which this statement is based was conducted in accordance with generally accepted auditing standards. Our previously published reports contain additional details on the scope and methodology for those reviews. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

DOD is one of the largest and most complex organizations in the world. For fiscal year 2012, the budget requested for the department was approximately \$671 billion—\$553 billion in discretionary budget authority and \$118 billion to support overseas contingency operations. The department is currently facing near- and long-term internal fiscal

⁵GAO, *DOD Business Transformation: Improved Management Oversight of Business System Modernization Efforts Needed*, [GAO-11-53](#) (Washington, D.C.: Oct. 7, 2010).

⁶The 10 ERPs are as follows: Army—General Fund Enterprise Business System (GFEBS), Global Combat Support System-Army (GCSS-Army), and Logistics Modernization Program (LMP); Navy—Navy Enterprise Resource Planning (Navy ERP) and Global Combat Support System-Marine Corps (GCSS-MC); Air Force—Defense Enterprise Accounting and Management System (DEAMS) and Expeditionary Combat Support System (ECSS); Defense—Service Specific Integrated Personnel and Pay Systems and Defense Agencies Initiative (DAI); and Defense Logistics Agency—Business System Modernization (BSM). According to DOD, BSM was fully deployed in July 2007 and LMP in October 2010.

pressures as it attempts to balance competing demands to support ongoing operations, rebuild readiness following extended military operations, and manage increasing personnel and health care costs and significant cost growth in its weapons systems programs. For more than a decade, DOD has dominated GAO's list of federal programs and operations at high risk of fraud, waste, abuse, and mismanagement.⁷ In fact, all of the DOD programs on GAO's High-Risk List relate to business operations, including systems and processes related to management of contracts, finances, the supply chain, and support infrastructure,⁸ as well as weapon systems acquisition. Long-standing and pervasive weaknesses in DOD's financial management and related business processes and systems have (1) resulted in a lack of reliable information needed to make decisions and report on the financial status and cost of DOD activities to Congress and DOD decision makers, (2) adversely affected its operational efficiency in business areas, such as major weapon systems acquisition and support and logistics, and (3) left the department vulnerable to fraud, waste, and abuse. In support of its military operations, DOD performs an assortment of interrelated and interdependent business functions, such as logistics management, procurement, health care management, and financial management. The DOD systems environment that supports these business functions has been overly complex and error prone, characterized by (1) little standardization across the department, (2) multiple systems performing the same tasks, (3) the same data stored in multiple systems, and (4) the need for data to be entered manually into multiple systems.

Ten Critical DOD ERP Systems

The department has stated that the following ERPs are critical to transforming the department's business operations and addressing some

⁷DOD bears responsibility, in whole or in part, for 14 of the 30 federal programs or activities that GAO has identified as being at high risk of waste, fraud, abuse, and mismanagement. The seven specific DOD high-risk areas are (1) approach to business transformation, (2) business systems modernization, (3) contract management, (4) financial management, (5) supply chain management, (6) support infrastructure management, and (7) weapon systems acquisition. The seven governmentwide high-risk areas that include DOD are: (1) disability programs, (2) interagency contracting, (3) information systems and critical infrastructure, (4) information sharing for homeland security, (5) human capital, (6) real property, and (7) ensuring the effective protection of technologies critical to U.S. national security interests.

⁸Support infrastructure includes categories such as force installation, central logistics, the defense health program, and central training.

of its long-standing weaknesses. A brief description of each of the ERPs is presented below.

- **The General Fund Enterprise Business System (GFEBS)** was initiated in October 2004 and is intended to support the Army's standardized financial management and accounting practices for the Army's general fund, with the exception of that related to the Army Corps of Engineers, which will continue to use its existing financial system, the Corps of Engineers Financial Management System. GFEBS is intended to allow the Army to share financial, asset and accounting data across the active Army, the Army National Guard, and the Army Reserve. The Army estimates that when fully implemented, GFEBS will be used to control and account for about \$140 billion in annual spending.
- **The Global Combat Support System-Army (GCSS-Army)** was initiated in December 2003⁹ and is expected to integrate multiple logistics functions by replacing numerous legacy systems and interfaces. The system is intended to provide tactical units with a common authoritative source for financial and related nonfinancial data, such as information related to maintenance and transportation of equipment. The system is also intended to provide asset visibility for accountable items. GCSS-Army will manage over \$49 billion in annual spending by the active Army, National Guard, and Army Reserve.
- **The Logistics Modernization Program (LMP)** was initiated in December 1999 and is intended to provide order fulfillment, demand and supply planning, procurement, asset management, material maintenance, and financial management capabilities for Army's working capital fund. The third and final deployment of LMP occurred in October 2010.
- **The Navy Enterprise Resource Planning System (Navy ERP)** was initiated in July 2003 and is intended to standardize the acquisition, financial, program management, maintenance, plant and wholesale supply, and workforce management capabilities at Navy commands.

⁹Prior to the initiation of the current ERP effort, the Army had been developing custom software since May 1997.

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- **The Global Combat Support System–Marine Corps (GCSS-MC)** was initiated in September 2003 and is intended to provide the deployed warfighter with enhanced capabilities in the areas of warehousing, distribution, logistical planning, depot maintenance, and improved asset visibility.
 - **The Defense Enterprise Accounting and Management System (DEAMS)** was initiated in August 2003 and is intended to provide the Air Force the entire spectrum of financial management capabilities, including collections, commitments and obligations, cost accounting, general ledger, funds control, receipts and acceptance, accounts payable and disbursement, billing, and financial reporting for the general fund. According to Air Force officials, when DEAMS is fully operational, it is expected to maintain control and accountability for about \$160 billion in spending.
 - **The Expeditionary Combat Support System (ECSS)** was initiated in January 2004 and is intended to provide the Air Force a single, integrated logistics system—including transportation, supply, maintenance and repair, engineering and acquisition—for both the Air Force’s general and working capital funds. Additionally, ECSS is intended to provide the financial management and accounting functions for the Air Force’s working capital fund operations. When fully implemented, ECSS is expected to control and account for about \$36 billion of inventory.
 - Each of the military departments is in the process of developing its own **Service Specific Integrated Personnel and Pay System**. The military departments’ integrated personnel and pay systems replace the Defense Integrated Military Human Resources System that was initiated in February 1998 and intended to provide a joint, integrated, standardized personnel and pay system for all military personnel.
 - The **Defense Agencies Initiative (DAI)** was initiated in January 2007 and is intended to modernize the defense agencies’ financial management processes by streamlining financial management capabilities and transforming the budget, finance, and accounting operations. When DAI is fully implemented, it is expected to have the capability to control and account for all appropriated, working capital and revolving funds at the defense agencies implementing the system.
 - **The Enterprise Business System (EBS)** is the second phase of the Defense Logistics Agency’s (DLA) Business System Modernization

(BSM) effort, which was initiated in November 1999 and implemented in July 2007. BSM focused on DLA's operations in five core business processes: order fulfillment, demand and supply planning, procurement, technical/quality assurance, and financial management. In September 2007, the name of the program was changed to Enterprise Business System as it entered the second phase, and according to the agency, EBS will further enhance DLA's supply chain management of nearly 6 million hardware and troop support items.

Schedule Slippages, Cost Increases, and Gaps in Functionality Impair the Usefulness of DOD's ERPs and Hinder Progress toward Accountability and Auditability

Implementation of the ERPs is intended to standardize and streamline DOD's financial management and accounting systems, integrate multiple logistics systems and finance processes, and provide asset visibility for accountable items. Effective implementation of the ERPs is also critical to DOD's auditability efforts and goals. However, to date, DOD's ERP implementations have been negatively impacted by schedule delays, cost increases, failures in delivering the necessary functionality, and a lack of compliance with required standards. Delays in the implementation of ERPs increase costs with the additional time and rework needed on the new system. The cost of additional time and rework needed have continued the funding of these legacy systems longer than anticipated and further eroded the estimated savings that were to accrue to DOD as a result of modernization. If the ERPs do not provide the intended capabilities, DOD's goal of modernizing and streamlining its business processes and strengthening its financial management capabilities leading to auditable financial statements could be jeopardized. The following are examples of weaknesses in DOD's implementation efforts.

Schedule Slippages and Cost Increases

Accurate and reliable schedule and cost estimates are essential for DOD management to make good decisions regarding ERP implementation and for overseeing progress of the project. The success of any program depends on having a reliable schedule of the program's work activities that will occur, how long they will take, and how the activities are related to one another. As such, the schedule not only provides a road map for systematic execution of a program, but also provides the means by which to gauge progress, identify and address potential problems, and promote accountability. As highlighted below, we and the DOD IG have questioned the accuracy and reliability of the ERPs' schedule and cost estimates.

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- In October 2010, we reported¹⁰ that based upon the data provided by DOD, 6 of the 10 ERPs DOD had identified as critical to transforming its business operations had experienced schedule delays ranging from 2 to 12 years, and five had incurred cost increases totaling an estimated \$6.9 billion. DOD told us that the ERPs will replace hundreds of legacy systems that cost hundreds of millions of dollars to operate annually. According to the program management officers, while there had been schedule slippages and cost increases for several of the ERP efforts, the functionality that was envisioned and planned when each program was initiated remained the same. While the original intent of each program remained the same, the anticipated savings that were to accrue to the department may not be fully realized.

Our October 2010 report also noted that our analysis of the schedule and cost estimates for four ERP programs—DEAMS, ECSS, GFEBS, and GCSS-Army—found that none of the programs were fully following best practices for developing reliable schedule and cost estimates. More specifically, none of the programs had developed a fully integrated master schedule that reflected all activities, including both government and contractor activities. In addition, none of the programs established a valid critical path or conducted a schedule risk analysis.¹¹ The report also noted that in July and September 2008, we reported that the schedules for the GCSS-MC and the Navy ERP were developed using some of these best practices, but several key practices were not fully employed that are fundamental to having a schedule that provides a sufficiently reliable basis for estimating costs, measuring progress, and forecasting slippages.¹²

Furthermore, our analysis of the four ERP programs' cost estimates found that ECSS, GFEBS, and GCSS-Army did not include a

¹⁰[GAO-11-53](#).

¹¹A critical path is the longest duration path through a sequenced list of activities within a schedule. A schedule risk analysis uses statistical techniques to predict a level of confidence in meeting a completion date.

¹²GAO, *DOD Business Systems Modernization: Key Marine Corps System Acquisition Needs to Be Better Justified, Defined, and Managed*, [GAO-08-822](#) (Washington, D.C.: July 28, 2008) and *DOD Business Systems Modernization: Important Management Controls Being Implemented on Major Navy Program, but Improvements Needed in Key Areas*, [GAO-08-896](#) (Washington, D.C.: Sept. 8, 2008).

sensitivity analysis, while cost estimates for GFEBS did not include a risk and uncertainty analysis. GAO, Office of Management and Budget (OMB), and DOD guidance¹³ stipulate that risk and uncertainty analysis should be performed to determine the level of risk associated with the dollar estimate. A sensitivity analysis would assist decision makers in determining how changes to assumptions or key cost drivers (such as labor or equipment) could affect the cost estimate. We also previously reported¹⁴ similar concerns regarding the GCSS-MC and the Navy ERP. A reliable cost estimate that includes sensitivity analysis and information about the degree of uncertainty provides the basis for realistic budget formulation and program resourcing, meaningful progress measurement, proactive course correction, and accountability for results.

- In a June 2011 report,¹⁵ the DOD IG reported that the Army estimated it will spend \$2.4 billion on the implementation of GFEBS. However, the report noted that the Army had not identified all of the requirements and costs associated with the project. In addition, the Army used unsupported and incomplete life-cycle cost estimates to determine \$1.4 billion in cost savings and used an inappropriate methodology to determine the estimated \$3.9 billion in benefits for implementing GFEBS.

Intended Functionality Not Always Provided

To support its business functions, DOD has reported that it relies on about 2,200 business systems, including accounting, acquisition, logistics, and personnel systems. DOD has stated that its ERPs will replace over 500 legacy systems that cost hundreds of millions of dollars to operate annually. However, some ERPs we reviewed did not deliver the functionality they were intended to provide, and thereby requiring continued operation of the existing systems.

¹³GAO, *Cost Estimating and Assessment Guide Best Practices for Developing and Managing Capital Program Costs*, [GAO-09-3SP](#) (Washington, D.C.: March 2009). OMB Revised Circular No. A-94, *Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs* (Oct. 29, 1992); and DOD Instruction 7041.3, *Economic Analysis for Decisionmaking* (Nov. 7, 1995).

¹⁴[GAO-08-822](#) and [GAO-08-896](#).

¹⁵DOD Inspector General, *Previously Identified Deficiencies Not Corrected in the General Fund Enterprise Business System Program*, D-2001-072 (Arlington, Virginia: June 15, 2011).

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- In November 2010, we reported¹⁶ that after two deployments of its LMP system, the Army had improved its implementation strategy, but continued to face problems that might prevent the system from fully providing its intended functionality at sites planned for the third and final deployment. While the Army improved its data-testing strategy for the third deployment, data quality problems continued at previous deployment sites and prevented staff at the sites from using LMP as intended. Also, new testing activities to support the third deployment were designed to assess how well the software functions but did not evaluate whether the data loaded into LMP were of sufficient quality to support the system's processes.

We found that the Army had yet to fully develop the software capabilities that LMP needed to achieve its intended functionality for some third-deployment sites. Without this functionality, LMP might limit the ability of staff at these sites to perform certain tasks, such as maintaining accountability of ammunition. For example, the Joint Munitions and Lethality Life Cycle Management Command conducts operations related to the production, management, and maintenance of ammunition. Officials at the command's sites told us that LMP—unlike the systems that will be replaced once LMP is deployed—did not enable them to ship, receive, inventory, or perform stock movements for ammunition. LMP program management officials told us that the omission of an ammunition-specific functionality was identified in 2009, and that its development began in January 2010. The Army planned to deliver the functionality and interfaces in phases through March 2011. The Army has mitigation plans to address this functionality gap. For example, the command planned to hire 172 additional personnel to perform manual data entry until the software can perform the required functions.

We recommended that Army report to Congress on the extent to which the third deployment sites were able to use LMP as intended, the benefits that LMP was providing, an assessment of the Army's progress in ensuring that data used in LMP can support the LMP processes, timelines for the delivery of software and additional

¹⁶GAO, *Defense Logistics: Additional Oversight and Reporting for the Army Logistics Modernization Program Are Needed*, [GAO-11-139](#) (Washington, D.C.: Nov. 18, 2010).

capabilities necessary to achieve the full benefits of LMP, and the costs and time frames of the mitigation strategies.

Our preliminary results from an ongoing ERP review identified problems related to GFEBS and DEAMS providing Defense Finance and Accounting Service (DFAS) users with the expected capabilities in accounting, management information, and decision support. To compensate for the deficiencies, DFAS users have devised manual workarounds and applications to obtain the information they need to perform their day-to-day tasks. GFEBS is expected to be fully deployed during fiscal year 2012, is currently operational at 154 locations, including DFAS, and is being used by approximately 35,000 users. DEAMS is expected to be fully deployed during fiscal year 2016, is currently operational at Scott Air Force Base and DFAS, and is being used by about 1,100 individuals.

Examples of the problems in these systems that DFAS users have identified include the following:

- The backlog of unresolved GFEBS trouble tickets¹⁷ has increased from about 250 in September 2010 to approximately 400 in May 2011. According to Army officials, this increase in tickets was not unexpected because the number of users and the number of transactions being processed by the system have increased, and the Army and DFAS are taking steps to address problems raised by DFAS.
- Approximately two-thirds of invoice and receipt data must be manually entered into GFEBS from the invoicing and receiving system (i.e., Wide Area Work Flow) due to interface problems.¹⁸ DFAS personnel told us that manual data entry will eventually become infeasible due to increased quantities of data that will have to be manually entered as GFEBS is deployed to additional locations. Army officials acknowledged that there is a problem with the interface between Wide Area Work Flow and GFEBS and that this problem had reduced the

¹⁷Trouble tickets represent user questions and problems with transactions or system performance that have not been resolved.

¹⁸Office of Federal Financial Management, *Core Financial System Requirements* (Washington, D.C.: January 2006), states that a core financial system must deliver workflow capabilities including integrated workflow, workflow process definition and processing exception notices.

effectiveness of GFEBS, and that they are working with DOD to resolve the problem.

- GFEBS lacks the ability to run ad hoc queries or to research data to resolve problems or answer questions.¹⁹ The Army has recognized this limitation and is currently developing a system enhancement that Army officials expect will better support the users' needs.
- Manual workarounds are needed to process certain accounts receivable transactions such as travel debts. DFAS personnel told us that this problem is the result of the improper conversion of data transferred from the legacy systems to DEAMS.
- DFAS officials indicated that they were experiencing difficulty with some DEAMS system interfaces.²⁰ For example, the interface problem with the Standard Procurement System has become so severe that the interface has been turned off, and the data must be manually entered into DEAMS.
- DFAS officials told us that DEAMS does not provide the capability—which existed in the legacy systems—to produce ad hoc query reports that can be used to perform the data analysis needed for daily operations.²¹ They also noted that when some reports are produced, the accuracy of those reports is questionable.
- Army and Air Force officials told us that they have plans to address these issues, and the Army has plans to validate the audit readiness of GFEBS in a series of independent auditor examinations over the next several fiscal years. For DEAMS, the DOD Milestone Decision

¹⁹Office of Federal Financial Management, *Core Financial System Requirements*, states that a core financial system must provide an integrated ad hoc query capability to support agency access to and analysis of system-maintained financial data.

²⁰Office of Federal Financial Management, *Core Financial System Requirements*, states that a core financial system financial transaction can be originated using multiple external feeder applications. These feeder systems and the core financial system must interface seamlessly so that data can move effectively between them. The core system must be able to process and validate the data independent of origination. There must also be a process for handling erroneous input and correction.

²¹Office of Federal Financial Management, *Core Financial System Requirements*, states that a core financial system financial transaction must deliver an integrated ad hoc query capability to support agency access to and analysis of system maintained financial data.

Authority²² has directed that the system not be deployed beyond Scott Air Force Base until the known system weaknesses have been corrected and the system has been independently tested to ensure that it is operating as intended.

Financial Management Compliance

To be efficient and effective as accounting and financial and business information tools, DOD's ERPs must be able to process information according to accounting and financial reporting standards. However, this has not always been the case.

In a November 2010 report,²³ the DOD IG stated that after more than 10 years in development and a cost of \$1.1 billion, the Army's LMP system was not compliant with the U.S. Government Standard General Ledger, which supports the consistent recording of financial information and the preparation of standard reports required by the OMB and the Department of the Treasury. Agencies are required by law²⁴ to maintain financial management systems that "comply substantially" with the Standard General Ledger, which contains two series of accounts—budgetary accounts used to recognize and track budget approval and execution and proprietary accounts used to recognize and track assets, liabilities, revenues, and expenses. Specifically, the DOD IG found that LMP did not contain 42 general ledger account codes necessary to record the Army working capital fund financial transactions. As a result, LMP cannot record all working capital fund transactions correctly and will therefore continue to inaccurately report financial data for the Army's working capital fund operations.

The DOD IG report further noted that the Army and DOD financial communities had not established the appropriate senior-level governance needed to develop, test, and implement the financial management

²²The Milestone Decision Authority is the senior DOD official who has overall authority to approve entry of an acquisition program into the next phase of the acquisition process and is accountable for cost, schedule, and performance reporting, including congressional reporting.

²³DOD Inspector General, *Insufficient Governance Over Logistics Modernization Program System Development*, D-2011-015 (Arlington, Virginia: Nov. 2, 2010).

²⁴Federal Financial Management Improvement Act of 1996, Pub. L. No. 104-208, div. A, title VIII, § 803, 110 Stat. 3009, 3009-390 (Sept. 30, 1996).

requirements and processes needed in LMP to record Army Working Capital Fund financial data at the transaction level. As a result, LMP was not substantially compliant with the Federal Financial Management Improvement Act of 1996.²⁵ The DOD IG also reported that the system also did not resolve any of the Army Working Capital Fund internal control weaknesses. The report concluded that the Army will need to spend additional funds to comply with U.S. Government Standard General Ledger requirements and achieve an unqualified audit opinion on its Army Working Capital Fund financial statements.

GAO will continue to monitor the department's progress of and provide feedback on the status of the department's financial management improvement efforts. More specifically, we are in the process of finalizing our work related to GFEBS and DEAMS.

Closing Comments

DOD has invested billions of dollars and will invest billions more to implement the modern business systems it will rely on for timely, accurate, and reliable information in managing its financial and other business operations, preparing auditable financial statements, and maintaining accountability for its stewardship of public funds. Too often, though, costs exceed estimates by millions as system-development programs run years behind schedule. Even with extended periods of development, we have found new systems that are missing interfaces needed to integrate them with existing systems while others, slated to replace legacy systems, are delivered without some of the functionalities performed by the systems they are expected to replace. Meanwhile, the department continues to operate largely in the duplicative, stovepiped environment of its legacy systems.

The continued deficiencies in the development and implementation of its ERPs also erode savings DOD has expected to accrue as a result of more-efficient business systems. While the implementation of the ERPs is a complex, demanding endeavor, the success of these systems is critical if DOD is to reach its auditability goals. Effective planning and implementation and the best efforts of a committed leadership, management, and staff will be critical.

²⁵Pub. L. No. 104-208, div. A, title VIII, 110 Stat. 3009, 3009-389 (Sept. 30, 1996).

Mr. Chairman and members of the Panel, this concludes my prepared statement. I would be pleased to respond to any questions that you or other members of the Panel may have at this time.

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